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TAGS: EFIN EINV ELAB BE
SUBJECT: Belgium: KBC Bank Comes Back for Thirds - Another Government Bailout

Summary

¶1. The Government of Belgium (GOB) provided a third bailout to Kredietbank (KBC), Belgium's third largest bank, on May 15, announcing it would provide cash of 2 billion euro and the possibility of loan guarantees worth almost 15 billion euro. KBC received earlier bailouts in October 2008 (3.5 bn euro) and January 2009 (2 bn euro), the latter provided by the regional government of Flanders. KBC thought it had cleaned up its balance sheet in January, but a February 2009 downgrading of US reinsurer MBIA forced KBC to mark down the value of certain assets. This latest transaction could end up bringing the combined federal and Flemish regional governments' total ownership of KBC to 28 percent. This latest intervention hammers home how deeply the financial crisis has hit Belgium's financial sector and the federal government, which has now injected over 25 billion euro (nearly 7 percent of Gross Domestic Product, or GDP) into the country's three largest banks, and possibly up to approximately 315 billion euro in loan guarantees. End summary.

¶2. On May 15, Kredietbank (KBC), the largest bank in the Flanders region of Belgium, announced a first-quarter loss of 3.6 billion euro, higher than expected. After three weeks of behind-the-scenes negotiations with KBC officials, the Belgian government (GOB) and the Commission of Banking and Finance, Prime Minister Herman Van Rompuy on May 15 announced the third rescue package for KBC in the last six months. The GOB had provided a 3.5 billion euro injection in October 2008, and the Flemish Government provided the second injection, amounting to 2 billion euro, in January 2009.

¶3. Although after the second rescue KBC had proudly declared that all dubious credits had been written off, the Flemish bank apparently ran into difficulty this time around due to the recent downgrading of the U.S. based reinsurer MBIA. This move forced KBC and a host of other banks to cut seriously into the value of some of the collateralized debt obligations (CDOs) in their portfolio insured by MBIA. This has also prompted KBC and 15 other banks to recently sue MBIA before a New York court, alleging that the credit reinsurer deliberately set up a 'good bank/bad bank' construction that was detrimental to its foreign clients.

¶4. The package announced May 15 by Belgian Prime Minister Van Rompuy consists of several tranches. A first tranche of 1.6 bn. euro in losses will be borne by KBC itself. A second tranche of eventual losses of 2 bn. euro will be borne by the GOB or the Flemish regional government, if KBC is not capable of finding fresh capital among its current shareholders. This could mean that the public sector (either the federal or Flemish regional government) could ultimately own up to 28 percent of the bank's capital. If after that second intervention KBC were to need even more cash, the GOB has provided an additional guarantee of euro 14.8 bn to be made available. It is still unclear when the expiration deadline for that guarantee is.

¶5. All these government guarantees and capital injections come at a hefty price for KBC, possibly costing KBC as much as 890 million euro per year until 2016. These revenues flowing to the GOB and/or Flemish government need to be offset against the cost of the loans

the GOB and the Flemish regional government had to take out to finance the rescues of the three 'systemic' Belgian banks, Fortis, Dexia and KBC. Earlier banking rescues for Dexia are expected to net the GOB an additional 500 million euro per year, as well as 30 million euro per year plus 11.6 percent ownership of BNP Paribas in the case of the GOB's rescue of Fortis Bank.

¶6. To date, the Belgian Government and the Flemish regional government have spent a total of 21.64 bn euro in capital support for KNC, Fortis and Dexia banks, while promising to cover another 25.16 bn euro in potential extra costs. On top of that, the public sector has pledged to guarantee a total of 95 bn euro of loans that the three banks can make.

¶7. Comment: During the talks leading up to the GOB bailout of KBC (and about which the Flemish Government was kept in the dark), the stock price of KBC initially increased by 25 percent but then dropped dramatically two days before the announcement of the deal by the Prime Minister. On May 15 alone KBC shares lost 40 percent of their value. Because of that, the Commission of Banking and Finance (CBFA), the Belgian financial watchdog, has already started an investigation to see whether insider trading has occurred. But the CBFA itself is also under fire as to why it kept KBC's latest problems so long under a shroud of secrecy.

¶8. Comment continued: This latest episode has badly tainted KBC's credibility, since the bank in January declared that it had seen the worst and had no more financial skeletons in its closet. But then the MBIA downgrade occurred in February, and KBC remained silent about it for another three months. It seems obvious that some heads will have to roll at the bank, while it simultaneously will have to shed some of its unprofitable operations in Eastern Europe, most notably in Russia, Slovenia and Serbia. End comment.

Bush